

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2012

Docket No. N2012-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO
GREETING CARD ASSOCIATION INTERROGATORIES GCA/USPS-T9-1 TO 4
(March 8, 2012)

The United States Postal Service hereby provides the responses of Witness Marc Smith to the above-listed interrogatories of the Greeting Card Association. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SMITH TO GCA INTERROGATORY

GCA/USPS-T9-1

On page 4, lines 13-15, of your prefiled testimony, you state that plant and equipment capacity cannot be adjusted for various workload fluctuations as a result of automating the mail processing network.

Please confirm that, before the advent of OCRs and BCSs (including DBCS), MPLSMs could not be adjusted for workload fluctuations, so that the capital to labor ratio per machine was essentially fixed. If you do not confirm, please explain why the situation was different for MPLSMs as compared with OCRs and BCSs.

RESPONSE:

I can confirm that the MPLSMs, like other equipment such as DBCS and OCRs, cannot be adjusted for workload fluctuations. However, my point that production capacity has become more inflexible since 1987 still applies. That is because the automation of letter processing has led to a greater share of processing costs for plant and equipment, which means that capacity is more inflexible. This increased inflexibility, along with more uneven workloads, has made the peak load problem worse, as I discuss in my testimony.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SMITH TO GCA INTERROGATORY

GCA/USPS-T9-2

(a) What percentage of the Postal Service's automation equipment is owned by USPS, and what percentage is leased? Please show the applicable percentage separately for each type of automation equipment.

(b) For any contractual leasing arrangements with automation equipment suppliers, what is the structure of the lease terms? For example, are any based on a "click rate", where the capital costs vary directly with the volume being processed? Please list and describe each applicable lease term structure.

RESPONSE:

a. All of the Postal Service's automation equipment is owned by the Postal Service.

b. N/A.

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RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SMITH TO GCA INTERROGATORY

GCA/USPS-T9-3

(a) For Postal Service-owned automation equipment, what percentage of the total current stock has been fully paid for?

(b) At what rate are DBCSs depreciated, and what are the remaining years and payment amounts due on equipment that has not been fully depreciated?.

RESPONSE:

a. I am not able to identify what is meant by automation equipment, so this response will address all mail processing equipment. The book cost of the current stock of mail processing equipment at the end of FY 2011 is \$11.98 billion. Interpreting “what percentage of current stock has been fully paid for” as meaning fully depreciated, the remaining depreciation for the current stock of mail processing equipment is about \$3.8 billion, so about 68 percent of the book cost has been depreciated.

b. While mail processing equipment and DBCS generally are depreciated over 10 years, recent DBCS investments in existing and new equipment has resulted in extending DBCS service lives to allow depreciation over 15 to 20 years. Numerous upgrades were made to existing DBCS equipment in the process of replacing OCRs, adapting DBCS for use in PARS and adding stackers, leading to the need to extend the service life or period of depreciation for this equipment. This is further discussed in the response to interrogatory GCA/USPS-T9-4. An approximation of the annual depreciation for the remaining \$560 million undepreciated costs for DBCS, given the data from our accounting system, is as follows:

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Fiscal Year	Annual Depreciation (\$s)
2012	51,869,277
2013	51,673,854
2014	50,668,133
2015	49,527,872
2016	48,594,237
2017	46,229,725
2018	42,935,337
2019	42,036,482
2020	36,651,723
2021	33,792,574
2022	30,417,097
2023	21,655,540
2024	18,847,220
2025	18,400,645
2026	13,012,611
2027	990,437
2028	6,667

RESPONSE OF UNITED STATES POSTAL SERVICE
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GCA/USPS-T9-4

- (a) What is the age composition of all DBCSs?
- (b) What is the cost and frequency of routine maintenance annually per machine for DBCSs (e.g. replacing belts, repairing or upgrading barcode scanners, repairing or adding software and related computer systems maintenance work, etc.)?

RESPONSE:

- a. Please note that the average age of mail processing equipment can be hard to define since often equipment is upgraded or significant components are added. This is particularly true for DBCS, as the Postal Service has done much upgrading of this equipment. The Postal Service has approximately 5,900 Delivery Barcode Sorters (DBCSs), as I indicate in my testimony, on page 13. The Postal Service had about 3,100 DBCS as of the end of FY 1996 and about 5,200 DBCS at the end of FY 2002. However, 615 DBCS in use at the end of FY1996 were replaced in FY1999. So about 2,500 (=3,100-615) of the DBCS in use today are about 15 years old or older. About another 2,700 DBCSs are 10 to 15 years old. Since FY2003, about 736 DBCS have been acquired as part of the replacement of OCRs (395), the PARS program (20) and additional DBCS capacity (321). In addition, significant investments have been made for DBCS purchased prior to FY2003 as part of these same programs. In particular, the OCR replacement and PARS programs led to the significant upgrading of about 700 of these DBCS. Additional stacker modules were provided for over 1,900 of these DBCS. Also, all DBCS have been upgraded with the Wide Field Of View cameras in 2003.

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- b. Maintenance on DBCS is discussed in USPS-LR-N2012-1/59. In addition, the FY2010 DBCS maintenance labor costs and parts/supplies costs are \$630.6 million and \$57.8 million respectively (see Docket No. ACR2010, USPS-FY10-8). Given 5,916 DBCS in FY2010, this leads to \$106,593 of maintenance labor cost and \$9,767 parts/supplies costs per DBCS.